

MANISTEE COUNTY ROAD COMMISSION

Bear Lake, Michigan

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

September 30, 2008

MANISTEE COUNTY ROAD COMMISSION

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INDEPENDENT AUDITORS' REPORT

Honorable Chairman
Members of County Road Commission
County of Manistee
Bear Lake, Michigan

We have audited the accompanying basic financial statements of the Manistee County Road Commission, a component unit of Manistee County, Michigan, as of and for the year ended September 30, 2008, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Manistee County Road Commission as of September 30, 2008, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express an opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berthiaume & Co.

Saginaw, Michigan
December 5, 2008

MANISTEE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION & ANALYSIS

USING THIS ANNUAL REPORT

The Manistee County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviation from the approved budget; and e) identify any issues or concerns.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts; management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the road commission.

The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when the cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.

The remaining statements are fund financial statements that focus on the individual funds, reporting the operations in more detail than the government-wide financial statements.

REPORTING THE ROAD COMMISSION AS A WHOLE

The statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

MANISTEE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION & ANALYSIS

REPORT ON THE COMMISSION'S MAJOR FUND

The fund financial statements begin on page eleven and provide detailed information about the major fund. The Road Commission currently has one fund, the County Road Fund, in which all of the Road Commission's activities are accounted. The County Road Fund is a governmental type fund.

Governmental Fund:

The governmental fund focuses on how money flows into and out of this fund and the balances that are left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

THE ROAD COMMISSION AS A WHOLE

The Road Commission's net assets increased approximately 5% or \$1,026,712 from \$20,752,083 to \$21,778,795 for the year ended September 30, 2008. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$246,421. The investment in capital assets-net of related debt increased by \$780,291, this increase reflects an investment in new capital assets, i.e. road improvements and equipment purchases greater than the expenses associated with capital assets such as depreciation as well as an increase in related debt for the year.

CONDENSED FINANCIAL STATEMENTS

The following are condensed government-wide financial statements for Manistee County Road Commission.

MANISTEE COUNTY ROAD COMMISSION

CONDENSED STATEMENT OF NET ASSETS

September 30, 2008 and 2007

| | <i>Governmental Activities 2008</i> | <i>Governmental Activities 2007</i> |
|---|---|---|
| ASSETS: | | |
| Current and other assets | \$ 2,512,364 | \$ 2,422,572 |
| Capital assets | <u>23,832,242</u> | <u>23,166,476</u> |
| Total assets | <u>26,344,606</u> | <u>25,589,048</u> |
| LIABILITIES: | | |
| Current Liabilities | 266,661 | 405,524 |
| Non-Current Liabilities | <u>4,299,150</u> | <u>4,431,441</u> |
| Total liabilities | <u>4,565,811</u> | <u>4,836,965</u> |
| NET ASSETS: | | |
| Invested in capital assets, net of related debt | 19,632,242 | 18,851,951 |
| Restricted for County Roads | <u>2,146,553</u> | <u>1,900,132</u> |
| Total net assets | <u>\$ 21,778,795</u> | <u>\$ 20,752,083</u> |

MANISTEE COUNTY ROAD COMMISSION

CONDENSED STATEMENT OF ACTIVITIES

For the years ended September 30, 2008 and 2007

| | <i>Governmental Activities 2008</i> | <i>Governmental Activities 2007</i> |
|-----------------------------------|---|---|
| REVENUE: | | |
| <i>Program Revenue:</i> | | |
| Licenses and permits | \$ 46,790 | \$ 49,625 |
| Federal grants | 279,109 | 23,588 |
| State grants | 3,932,653 | 4,255,777 |
| Contributions from Local Units | 275,699 | 574,888 |
| Charges for services | 716,199 | 981,037 |
| Rents/Royalties | 82,864 | 57,388 |
| Other revenues | 32,328 | 19,704 |
| | <u>5,365,642</u> | <u>5,962,007</u> |
| General Revenue: | | |
| Investment earnings | 40,241 | 32,935 |
| Gain on disposal of assets | 32,958 | 221,810 |
| | <u>73,199</u> | <u>254,745</u> |
| Total revenue | <u>5,438,841</u> | <u>6,216,752</u> |
| EXPENSES: | | |
| Primary road maintenance | 1,035,265 | 930,373 |
| Local road maintenance | 1,262,536 | 1,498,559 |
| State trunkline maintenance | 653,344 | 978,500 |
| Net equipment expense | 528,887 | 357,136 |
| Net administrative expense | 323,877 | 299,980 |
| Infrastructure depreciation | 429,292 | 238,567 |
| Compensated absences | (11,007) | (22,900) |
| Interest expense | 189,935 | 176,418 |
| | <u>4,412,129</u> | <u>4,456,633</u> |
| Total expenses | <u>4,412,129</u> | <u>4,456,633</u> |
| Change in Net Assets | 1,026,712 | 1,760,119 |
| Net assets, beginning of year | <u>20,752,083</u> | <u>18,991,964</u> |
| Net assets, end of year | <u>\$ 21,778,795</u> | <u>\$ 20,752,083</u> |

MANISTEE COUNTY ROAD COMMISSION

THE ROAD COMMISSION'S FUND

The Road Commission's County Road Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

For the year ended September 30, 2008, the fund balance of the County Road Fund increased by \$235,414 which management considered insignificant.

Management believes that the Net Assets balance provides sufficient work capital to support future operations of Manistee County Road Commission.

BUDGET

The Manistee County Road Commission's budget is prepared in accordance with state law using the modified accrual accounting basis. This is the same accounting basis used for the governmental fund.

ANALYSIS OF FUND BALANCES

ORIGINAL BUDGET VERSUS AMENDED BUDGET:

The fiscal year 2008 budget was adopted on September 19, 2007. The budget is reviewed periodically and amended as information becomes available or management's plans change. The amended budgeted revenue was increased by approximately \$415,000. The increase comes primarily from FEMA and State funds received for storm damage not foreseen at the beginning of the budget season. The remaining changes were from adjustments made to several individual revenue accounts, none of which management considers significant.

Total budgeted expenditures increased from the original budget to the amended budget by approximately \$470,000. The majority of this increase was also due to additional work that needed to be performed after significant storm damage and cost overruns on road project due to significant increases in material and fuel costs.. The balance of the changes were from adjustments made to several individual expenditures items, none of which management considers significant.

AMENDED BUDGET VERSUS ACTUAL:

In accordance with the Budget Resolution adopted by the Road Commission on September 30, 2008, the Finance Director has modified the budget to various revenue and expenditures accounts which cannot be accurately projected prior to year end. As a result, the Final Adopted Budget of the Manistee County Road Commission has been amended to equal a closer estimate of the actual revenue, expenditures, and fund balance for the year ended September 30, 2008.

MANISTEE COUNTY ROAD COMMISSION

CAPITAL ASSETS AND LONG-TERM DEBT

CAPITAL ASSETS:

Manistee County Road Commission has capital assets for full accrual accounting purposes, net of accumulated depreciation, in the amount of \$23,832,242. This information, which includes infrastructure, is summarized below.

| | <u>September 30, 2008</u> |
|--|--------------------------------------|
| Land and improvements - infrastructure | \$ 13,017,246 |
| Land and Improvements-other | 25,236 |
| Land and Improvements - depreciable | 379,376 |
| Depletable Assets | 24,065 |
| Buildings | 5,776,744 |
| Road equipment | 6,629,332 |
| Shop equipment | 467,426 |
| Engineers equipment | 81,767 |
| Yard and storage equipment | 359,669 |
| Office equipment | 61,855 |
| Infrastructure | <u>19,125,214</u> |
| Total capital assets | 45,947,930 |
| Accumulated depreciation | <u>22,115,688</u> |
| Net capital assets | <u><u>\$ 23,832,242</u></u> |

Additional information regarding capital assets is located in the Notes to the Financial Statements.

LONG-TERM DEBT:

The Road Commission currently has long-term debt in the amount of \$4,253,747, a decrease of \$125,532 from the prior year. The majority on this decrease due to scheduled debt payments. The debt consists primarily of Michigan Transportation Fund Bonds, these bonds were used to fund the construction of the road commissions buildings and associated land improvements. The remainder of the long-term debt consists of one installment purchase contract and compensated absences payable at September 30, 2008.

OTHER

Management is not aware of any currently known facts, decisions, or conditions expected to have a significant effect on Manistee County Road Commission's financial condition next year and beyond.

CONTACTING THE ROAD COMMISSION'S FINANCIAL MANAGEMENT

This report is designed to provide the motoring public, citizens, and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the Manistee County Road Commission's administrative offices at 8946 Chippewa Highway, Bear Lake, MI 49614.

BASIC FINANCIAL STATEMENTS

MANISTEE COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS

September 30, 2008

ASSETS:

| | |
|--|-------------------|
| <i>Cash and cash equivalents</i> | \$ 838,457 |
| <i>Accounts Receivable:</i> | |
| Motor vehicle highway funds | 596,604 |
| State trunkline maintenance | 22,917 |
| State - other | 5,666 |
| Federal Safety Funds | 243,155 |
| Federal Transportation Enhancement Funds | 35,392 |
| County road agreements | 104,479 |
| Cities and Villages | 11,158 |
| Sundry accounts receivable | 3,314 |
| <i>Inventories:</i> | |
| Equipment materials and parts | 161,159 |
| Road materials | 404,525 |
| <i>Other Assets:</i> | |
| Prepaid insurance | 85,538 |
| <i>Capital assets:</i> | |
| Nondepreciable capital assets | 13,042,482 |
| Depreciable capital assets, net | <u>10,789,760</u> |
| Total assets | <u>26,344,606</u> |

LIABILITIES:

| | |
|---------------------------------|------------------|
| <i>Current Liabilities:</i> | |
| Accounts payable | 75,797 |
| Accrued liabilities | 61,587 |
| Due to townships | 24,277 |
| Performance bond payable | 5,000 |
| Current Portion: | |
| Bonds payable | <u>100,000</u> |
| Total current liabilities | <u>266,661</u> |
| <i>Non-Current Liabilities:</i> | |
| Advance from State | 145,403 |
| Compensated absences | 53,747 |
| Bonds payable | <u>4,100,000</u> |
| Total non-current liabilities | <u>4,299,150</u> |
| Total liabilities | <u>4,565,811</u> |

NET ASSETS:

| | |
|---|----------------------|
| Invested in capital assets, net of related debt | 19,632,242 |
| Restricted for County Roads | <u>2,146,553</u> |
| Total net assets | <u>\$ 21,778,795</u> |

The Notes to Financial Statements are an integral part of this statement.

MANISTEE COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2008

PROGRAM EXPENSES:

| | |
|-----------------------------|------------------|
| Primary road maintenance | \$ 1,035,265 |
| Local road maintenance | 1,262,536 |
| State trunkline maintenance | 653,344 |
| Net equipment expense | 528,887 |
| Net administrative expense | 323,877 |
| Infrastructure depreciation | 429,292 |
| Compensated absences | (11,007) |
| Interest expense | <u>189,935</u> |
| Total program expenses | <u>4,412,129</u> |

PROGRAM REVENUE:

| | |
|--------------------------------|------------------|
| Licenses and permits | 46,790 |
| Federal grants | 279,109 |
| State grants | 3,932,653 |
| Contributions from Local Units | 275,699 |
| Charges for services | 716,199 |
| Rents/Oil leases | 82,864 |
| Other revenues | <u>32,328</u> |
| Total program revenue | <u>5,365,642</u> |

| | |
|---------------------|----------------|
| Net program revenue | <u>953,513</u> |
|---------------------|----------------|

GENERAL REVENUE:

| | |
|----------------------------|---------------|
| Investment earnings | 40,241 |
| Gain on disposal of assets | <u>32,958</u> |
| Total general revenue | <u>73,199</u> |

| | |
|----------------------|-----------|
| Change in Net Assets | 1,026,712 |
|----------------------|-----------|

| | |
|-------------------------------|-------------------|
| Net assets, beginning of year | <u>20,752,083</u> |
|-------------------------------|-------------------|

| | |
|-------------------------|-----------------------------|
| Net assets, end of year | <u><u>\$ 21,778,795</u></u> |
|-------------------------|-----------------------------|

The Notes to Financial Statements are an integral part of this statement.

MANISTEE COUNTY ROAD COMMISSION

COUNTY ROAD FUND GOVERNMENTAL FUND BALANCE SHEET

For the Year Ended September 30, 2008

ASSETS:

Cash and cash equivalents:

| | |
|-----------------------------------|---------|
| Imprest cash | \$ 100 |
| Checking and money market savings | 338,357 |
| Certificates of deposit | 500,000 |

Accounts Receivable:

| | |
|---|---------|
| Motor vehicle highway funds | 596,604 |
| State trunkline maintenance | 22,917 |
| State Transportation Department - Other | 5,666 |
| Federal Emergency Management Agency Funds | 243,155 |
| Federal Transportation Enhancement Funds | 35,392 |
| County road agreements | 104,479 |
| Cities and Villages | 11,158 |
| Sundry accounts receivable | 3,314 |

Inventories:

| | |
|-------------------------------|---------|
| Equipment materials and parts | 161,159 |
| Road materials | 404,525 |

Other assets:

| | |
|------------------|--------|
| Prepaid expenses | 85,538 |
|------------------|--------|

| | |
|--------------|------------------|
| Total assets | <u>2,512,364</u> |
|--------------|------------------|

LIABILITIES:

Current Liabilities:

| | |
|--------------------------|----------------|
| Accounts payable | 75,797 |
| Accrued liabilities | 61,587 |
| Contracts payable | 24,277 |
| Advances payable | 145,403 |
| Performance bond payable | 5,000 |
| Total liabilities | <u>312,064</u> |

FUND EQUITY:

Motor Vehicle Highway Funds:

| | |
|-----------------|-----------|
| Unreserved: | |
| Designated for: | |
| Primary roads | 1,213,785 |

County Road Commission Funds:

| | |
|-------------------|------------------|
| Unreserved: | |
| Undesignated | 986,515 |
| Total fund equity | <u>2,200,300</u> |

| | |
|-----------------------------------|---------------------|
| Total liabilities and fund equity | <u>\$ 2,512,364</u> |
|-----------------------------------|---------------------|

The Notes to Financial Statements are an integral part of this statement.

MANISTEE COUNTY ROAD COMMISSION

RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO THE STATEMENT OF NET ASSETS

For the Year Ended September 30, 2008

Total governmental fund balance \$ 2,200,300

Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental fund.

| | | |
|-------------------------------|---------------------|------------|
| Governmental capital assets | 45,947,931 | |
| Less accumulated depreciation | <u>(22,115,689)</u> | 23,832,242 |

Long-term liabilities are not due and payable in the current year and
therefore are not reported in the governmental funds:

| | | |
|------------------------------|-----------------|--------------------|
| Bonds payable | (4,200,000) | |
| Compensated absences payable | <u>(53,747)</u> | <u>(4,253,747)</u> |

Net assets of governmental activities \$ 21,778,795

The Notes to Financial Statements are an integral part of this statement.

MANISTEE COUNTY ROAD COMMISSION

COUNTY ROAD FUND

GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

For the Year Ended September 30, 2008

REVENUES:

| | |
|--------------------------------|------------------|
| Licenses and permits | \$ 46,790 |
| Federal grants | 279,109 |
| State grants | 3,932,653 |
| Contributions from other units | 275,699 |
| Charges for services | 716,198 |
| Interest and rents | 76,241 |
| Other revenue | <u>112,315</u> |
| Total revenues | <u>5,439,005</u> |

EXPENDITURES:

| | |
|---|------------------|
| Public works | 5,221,299 |
| Capital outlay, net of depreciation credits | (322,168) |
| Debt service | <u>304,460</u> |
| Total expenditures | <u>5,203,591</u> |

| | |
|--------------------------------------|----------------------------|
| Excess of revenues over expenditures | 235,414 |
| Fund balance, beginning of year | <u>1,964,886</u> |
| Fund balance, end of year | <u><u>\$ 2,200,300</u></u> |

The Notes to Financial Statements are an integral part of this statement.

MANISTEE COUNTY ROAD COMMISSION

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2008

Net change in fund balances - total governmental funds \$ 235,414

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

| | | |
|---------------------------|--------------------|---------|
| Capital outlay | 1,723,754 | |
| Less depreciation expense | <u>(1,057,824)</u> | 665,930 |

Governmental funds report the proceeds from the sale of capital asset as revenue. However, in the statement of activities, the proceeds are reduced by the depreciated cost of those assets.

| | |
|---------------------------------|-------|
| Depreciated cost of assets sold | (164) |
|---------------------------------|-------|

Repayments of principal on long-term obligations are expenditures in governmental funds, but the payments reduce long-term liabilities in the statement of net assets.

| | | |
|-------------------------------|----------------|---------|
| Installment purchase contract | 14,525 | |
| Bonds Payable | <u>100,000</u> | 114,525 |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | |
|--|---------------|
| Change in compensated absences payable | <u>11,007</u> |
|--|---------------|

Change in net assets of governmental activities \$ 1,026,712

The Notes to Financial Statements are an integral part of this statement.

MANISTEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Manistee County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The following is a summary of the significant accounting policies used by the Manistee County Road Commission.

A. REPORTING ENTITY

The Manistee County Road Commission is an independent governmental agency operated under the jurisdiction of the State of Michigan and Manistee County established pursuant to the *County Road Law MCL 224.1*. The Commission is charged with the responsibility of maintaining all primary and local road systems in Manistee County. The Road Commission is governed by a three member board appointed by the County Board of Commissioners.

In accordance with the provisions of GASB 14, the Manistee County Road Commission is considered a component unit of Manistee County for financial reporting purposes. The criteria for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service and special financing relationships.

The Road Commission Operating Fund (County Road Fund) is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the County Road Fund. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Manistee County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either as invested in fixed assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers of applicants who purchase, use, or directly benefit from goods, services, of privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function of segment. Other items not properly included among program revenues are reported instead as general revenue.

MANISTEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2008

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

Separate financial statements are provided for the County Road Fund (governmental fund). The County Road Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported in separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims, and judgments are recorded only when the payment is due.

Michigan transportation funds, grants, permits, township contributions, charges for services and sales, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other items are considered to be available only when cash is received.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Cash Equivalents:

The Road Commission's cash and cash equivalents are considered to be cash on hand, demand deposits including certificates of deposit, and short-term investments with original maturities of three months or less from date of acquisition.

State statutes authorize the Road Commission to invest in U.S. government obligations, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances, and with some restrictions, mutual funds.

All investments, if any, are stated at fair value.

MANISTEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2008

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

Inventories:

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventory consists of road materials, fuel, road signs, repair parts, and supplies to be used by the Road Commission.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, and similar items) are reported in the government-wide financial statements. The Manistee County Road Commission defines capital assets as either; an asset with an initial individual cost of more than \$200 and an estimated useful life in excess of two years, or assets of any cost that are assigned a Schedule C rate. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

GASB No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized. The Manistee County Road Commission has retroactively capitalized all of its assets as required effective October 1, 2002.

Depreciation and Depletion:

Depreciation has been computed over the assets estimated useful lives using the sum-of-the-years-digits method for road equipment and the straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

| | |
|----------------------------|----------------|
| Buildings | 15 to 50 years |
| Road Equipment | 5 to 10 years |
| Shop Equipment | 8 to 10 years |
| Engineering Department | 8 to 10 years |
| Yard and Storage Equipment | 8 to 10 years |
| Office Equipment | 5 to 10 years |
| Infrastructure | 5 to 50 years |

Depletion is determined by allocating the purchase cost of the total years available. As materials are used, the proportionate share of cost is charged to depletion.

Compensated Absences (Vacation and Sick Leave):

The total accumulated unpaid vacation and sick pay liability of the Road Commission at September 30, 2008, was \$53,747. Of this amount \$53,747 was determined to be a long-term liability and is therefore reflected as a non-current liability on the government-wide statements. A liability for this amount is only reported in the governmental funds for known employee terminations as of year-end.

MANISTEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2008

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES, continued

The employee policies regarding the accumulation and payment of vacation and sick leave time are as follows:

VACATION TIME - Maximum carry-forward is one year of earned vacation. Unused vacation pay will be paid at current rates at date of employment separation.

SICK LEAVE - Sick leave can not be accumulated. Unused sick leave will be paid at current rates on December 1 each year up to a maximum of 32 hours; any addition hours are lost at that time.

Long-Term Obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Fund Equity:

The Road Commission reserves those portions of fund equity which are legally segregated for a specific future use of which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves have been established for inventories.

Snow Removal Revenue:

Snow removal revenue was allocated 100% to local roads. This allocation is in accordance with provisions made by the State Highway Department allowing each Road Commission to make its own allocation of total snow removal revenue.

Interest Income Allocation:

Interest income for the year was allocated 67% to Primary Road Funds and 33% to County Road Commission Funds.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

MANISTEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2008

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGET AND BUDGETARY ACCOUNTING

The Road Commission follows these procedures in establishing the budget as reflected in these financial statements:

1. In September the manager submits, to the Commission, a proposed operating budget for the year commencing on October 1.
2. Prior to September 30, the budget is legally enacted through passage of a resolution.
3. For purposes of meeting emergency needs of the Road Commission, transfer of appropriations may be made by the authorization of the manager. Such transfers of appropriations must be approved by the Commission at its next regularly scheduled meeting.
4. The manager is charged with general supervision of the budget.
5. During the year the budget is monitored and amendments to the budget resolution are made as deemed necessary.
6. The budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

B. BUDGET COMPLIANCE

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. For the year ended September 30, 2008 the Road Commission incurred no expenditures in excess of budget appropriations.

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are in five banks in the name of the Road Commission and the County Treasurer. Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended), authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase, and which involves no more than 50% of any one fund; and obligations of the State of Michigan or its political subdivisions which are rated as investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of *Public Act 20 of 1943*, as amended by Public Act 196 of 1997.

MANISTEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2008

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS, continued

At year end the Road Commission did not have any investments; all the cash deposits and \$100 in imprest cash were reported as Cash and cash equivalents in the basic financial statements.

The Road Commission's deposits are subject to custodial credit risk, which is reported in more detail as follows:

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had \$1,044,121 of bank deposits (checking, savings, certificates of deposit and money market savings accounts), of which \$569,963 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

NOTE 4 – CAPITAL ASSETS

Non-infrastructure depreciation expense for the year was charged to programs of the Manistee County Road Commission as follows:

Public Works:

| | |
|---|-------------------|
| Primary Road: | |
| Preservation | \$ 43,742 |
| Maintenance | 131,639 |
| Local Road: | |
| Preservation | 57,640 |
| Maintenance | 242,836 |
| State Trunkline Maintenance | 114,765 |
| Administrative Expense | <u>37,910</u> |
| Total non-infrastructure depreciation expense | <u>\$ 628,532</u> |

MANISTEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2008

NOTE 5 – CAPITAL ASSETS, continued

Capital asset activity of the Manistee County Road Commission for the current year was as follows:

| | <i>Balance October 1, 2007</i> | <i>Additions</i> | <i>Deductions</i> | <i>Balance September 30, 2008</i> |
|--------------------------------------|--|-------------------|-------------------|---|
| Capital Assets Not Being Depreciated | | | | |
| Land and Improvements-Infrastructure | \$ 13,017,246 | \$ - | \$ - | \$ 13,017,246 |
| Land and Improvements-Other | 25,236 | - | - | 25,236 |
| Subtotal | <u>13,042,482</u> | <u>-</u> | <u>-</u> | <u>13,042,482</u> |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 379,376 | - | - | 379,376 |
| Depletable Assets | 24,065 | - | - | 24,065 |
| Buildings | 5,776,744 | - | - | 5,776,744 |
| Road Equipment | 6,657,387 | 305,640 | 333,695 | 6,629,332 |
| Shop Equipment | 467,426 | - | - | 467,426 |
| Engineers Equipment | 81,042 | 725 | - | 81,767 |
| Yard and Storage Equipment | 359,669 | - | - | 359,669 |
| Office Equipment | 61,855 | - | - | 61,855 |
| Infrastructure | <u>17,707,825</u> | <u>1,417,389</u> | <u>-</u> | <u>19,125,214</u> |
| Subtotal | <u>31,515,389</u> | <u>1,723,754</u> | <u>333,695</u> | <u>32,905,448</u> |
| Less Accumulated Depreciation | | | | |
| Land Improvements | 53,531 | 33,108 | - | 86,639 |
| Depletable Assets | - | - | - | - |
| Buildings | 825,357 | 246,028 | - | 1,071,385 |
| Road Equipment | 6,104,066 | 291,445 | 333,531 | 6,061,980 |
| Shop Equipment | 146,536 | 42,494 | - | 189,030 |
| Engineers Equipment | 66,034 | 2,609 | - | 68,643 |
| Yard and Storage Equipment | 163,289 | 9,860 | - | 173,149 |
| Office Equipment | 38,986 | 2,988 | - | 41,974 |
| Infrastructure | <u>13,993,596</u> | <u>429,292</u> | <u>-</u> | <u>14,422,888</u> |
| Subtotal | <u>21,391,395</u> | <u>1,057,824</u> | <u>333,531</u> | <u>22,115,688</u> |
| Net Capital Assets Being Depreciated | <u>10,123,994</u> | <u>665,930</u> | <u>164</u> | <u>10,789,760</u> |
| Total Net Capital Assets | <u>\$ 23,166,476</u> | <u>\$ 665,930</u> | <u>\$ 164</u> | <u>\$ 23,832,242</u> |

MANISTEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2008

NOTE 5 – LONG-TERM DEBT

The following is a summary of the long-term debt transactions for the Road Commission for the year ended September 30, 2008:

| | <i>Balance October 1, 2007</i> | <i>Additions</i> | <i>(Reductions)</i> | <i>Balance September 30, 2008</i> | <i>Portion Due Within One Year</i> |
|--|--|------------------|---------------------|---|--|
| GOVERNMENTAL ACTIVITIES: | | | | | |
| <i>Installment Purchase Contracts :</i> | | | | | |
| Excavator – original issue of \$60,000 due in monthly installments of \$2,885 through February 20, 2008, bearing interest at 4.40%. | \$ 14,525 | \$ - | \$ (14,525) | \$ - | \$ - |
| <i>Bonds Payable:</i> | | | | | |
| Bonds Payable - Michigan Transportation Fund – Original issue of \$4,500,000 due in annual installments of \$100,000-\$400,000 through August 1, 2024, plus interest, due semi-annually at 3.5% to 4.85% | 4,300,000 | - | (100,000) | 4,200,000 | 100,000 |
| Compensated Absences Payable | 64,754 | - | (11,007) | 53,747 | - |
| | <u>\$ 4,379,279</u> | <u>\$ -</u> | <u>\$ (125,532)</u> | <u>\$ 4,253,747</u> | <u>\$ 100,000</u> |

The annual requirements (principal and interest) to amortize all debts (except vacation and sick) outstanding as of September 30, 2008, are as follows:

| <i><u>Year Ending September 30,</u></i> | <i><u>Bonds Payable</u></i> |
|---|---------------------------------|
| 2009 | \$ 336,275 |
| 2010 | 380,650 |
| 2011 | 373,150 |
| 2012 | 365,150 |
| 2013 | 357,150 |
| 2014-2018 | 1,886,500 |
| 2019-2023 | 1,931,350 |
| 2024 | <u>419,400</u> |
| | <u>\$ 6,049,625</u> |

The accumulated vacation and sick leave is not subject to an annual amortization calculation because it will become due and payable in varying amounts from year to year as employees terminate their employment with the Manistee County Road Commission.

MANISTEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2008

NOTE 6 – PENSION PLAN

Description of Plan and Plan Assets

The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2007.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 [MSA 5.333(a); MCLA 46.12 (a)], as amended, State of Michigan. MERS is regulated under Act No. 220 of the Public Acts of 1996, as amended, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission was required to contribute at an actuarially determined rate; the current rate was 20.22 percent for general employees, 16.15 percent for non-union employees and a flat \$12,260 a month for senior administrators.

Annual Pension Cost

During the fiscal year ended September 30, 2008, the Road Commission made contributions totaling \$307,546. The Commission's contributions included \$80,000 of voluntary contributions and \$227,546 of required contributions that were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2006. The employer contribution rate has been determined based on the entry age normal cost method. Under the entry age normal cost method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

MANISTEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2008

NOTE 6 – PENSION PLAN, continued

Three Year Trend Information as of September 30, follows:

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|-------------|-------------|-------------|
| Annual pension cost | \$ 307,546 | \$ 398,096 | \$ 403,701 |
| Percentage of annual pension cost contributed | 100% | 100% | 100% |
| Net pension obligation | - | - | - |

Funded Status

A schedule of funding progress as of the three most recent actuarial valuations is as follows:

| <u>Actuarial Valuation Date</u> | <u>12/31/07</u> | <u>12/31/06</u> | <u>12/31/05</u> |
|---|-----------------|-----------------|-----------------|
| Actuarial Value of Assets | \$ 4,572,900 | \$ 4,318,522 | \$ 4,056,018 |
| Actuarial Accrued Liability (AAL) | 9,621,291 | 9,449,572 | 9,037,120 |
| Unfunded AAL (UAAL) | 5,048,391 | 5,131,050 | 4,981,102 |
| Funded Ratio | 48% | 46% | 45% |
| Covered Payroll | 1,338,166 | 1,467,030 | 1,528,567 |
| UAAL as a percentage of covered payroll | 377% | 350% | 326% |

NOTE 7 – DEFERRED COMPENSATION PLAN

The Commission offers its employees three deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The Road Commission does not contribute to the Plan.

NOTE 8 – POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, the Road Commission makes available health care benefits to all retired employees with the Commission paying a fixed amount of \$40, \$60, or \$80 a month depending on the terms of the contract on the date of retirement. Currently, twelve (12) retirees of the Road Commission are participating in this benefit program. During the fiscal year ending September 30, 2008 the Road Commission paid approximately \$9,800 for health insurance premiums for its retirees under this program. The Road Commission also pays \$100 a month to those retirees that opt out of the health care benefits. Currently there are two (2) employees receiving this benefit for a total cost to the Commission of \$2,400. The Road Commission's policy is to finance these benefits on a pay-as-you-go basis.

MANISTEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2008

NOTE 9 – UPCOMING REPORTING CHANGE

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than the time the health care benefits are paid. The new pronouncement is effective for the year beginning October 1, 2009.

NOTE 10 – FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended September 30, 2008, the Federal grants received and expended by the Road Commission was \$245,262 for contracted projects and \$33,847 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT. Negotiated projects are projects where the Road Commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$ 500,000 or more for negotiated projects.

NOTE 11 – CONTINGENCIES

The Manistee County Road Commission contracts with the State of Michigan to perform state highway maintenance functions for the State. The cost of the maintenance is then billed to the State of Michigan who reimburses the Manistee County Road Commission for the costs incurred. These cost reimbursement contract expenditures are subject to audit at some future date by the State of Michigan. The amount, if any, of expenditures that may be disallowed by the State of Michigan cannot be determined until the State completes its annual audit of its maintenance agreement with the Manistee County Road Commission. The audit adjustment is accounted for as an adjustment of the current year’s expenditures.

The Manistee County Road Commission is party to various legal proceedings incidental to its operations. Certain claims, suits and complaints arising in the ordinary course of operations have been filed against the Road Commission. In the opinion of management and legal counsel, all such matters are adequately covered by insurance or, if not so covered, are without merit or are in a very preliminary state, and it is not possible to currently assess the probability of an unfavorable outcome.

MANISTEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS (continued)

September 30, 2008

NOTE 12 – EQUIPMENT AND TRUNKLINE MAINTENANCE ADVANCE

The State of Michigan has advanced funds to the Manistee County Road Commission for the purchase of equipment and for trunkline maintenance. Each advance is an annual advance with appropriate adjustments made each year to reflect the current balance based on applicable formula developed by the Michigan Department of Transportation. Because the transaction is an annual advance, the transaction is classified as a liability in the Special Revenue Fund, rather than an item included in Long-Term Debt, in accordance with the instructions of the Local Audit Division of the Michigan Department of Treasury.

NOTE 13 – RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. The Road Commission manages its liability and property risk by participating in Michigan County Road Commission Self Insurance Pool and the County Road Association Self Insurance Fund (for workers compensation). These insurance providers are public entity risk pools providing coverage to its members. The Road Commission pays an annual premium to these providers for its insurance coverage. These providers are self-sustaining through member premiums and provide, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based on property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTAL INFORMATION

MANISTEE COUNTY ROAD COMMISSION

COUNTY ROAD FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET TO ACTUAL

For the Year Ended September 30, 2008

| | <u>Budgeted Amounts</u> | | | <i>Actual Over (Under) Final Budget</i> |
|--------------------------------------|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| Licenses and permits | \$ 50,000 | \$ 46,790 | \$ 46,790 | \$ - |
| Federal grants: | | | | |
| Surface Transportation Program | - | 36,843 | 36,843 | - |
| Federal "D" Funds | - | 33,847 | 33,847 | - |
| FEMA Funds | - | 208,419 | 208,419 | - |
| State grants: | | | | |
| Michigan Transportation Funds | 3,688,000 | 3,621,382 | 3,621,382 | - |
| Other State Funds | 187,500 | 187,500 | 187,500 | - |
| Economic Development Funds | 73,590 | 123,771 | 123,771 | - |
| Contributions from other units | 225,000 | 275,699 | 275,699 | - |
| Charges for services | | | | |
| State trunkline maintenance | 650,000 | 627,208 | 627,208 | - |
| State trunkline non-maintenance | 50,000 | 42,065 | 42,065 | - |
| Other | 500 | 46,926 | 46,926 | - |
| Interest and rents | 66,000 | 76,241 | 76,241 | - |
| Other revenue | 33,121 | 112,314 | 112,314 | - |
| Total revenues | <u>5,023,711</u> | <u>5,439,005</u> | <u>5,439,005</u> | <u>-</u> |
| Expenditures: | | | | |
| Public works: | | | | |
| Primary road: | | | | |
| Preservation | 627,000 | 442,523 | 442,523 | - |
| Maintenance | 868,000 | 755,222 | 755,222 | - |
| Winter Maintenance | 532,000 | 460,959 | 460,959 | - |
| Local road: | | | | |
| Preservation | 300,000 | 772,559 | 772,559 | - |
| Maintenance | 871,000 | 860,124 | 860,124 | - |
| Winter Maintenance | 429,000 | 423,804 | 423,804 | - |
| State trunkline maintenance | 546,771 | 611,279 | 611,279 | - |
| State trunkline non-maintenance | - | 42,065 | 42,065 | - |
| Equipment expense, net | 375,000 | 528,887 | 528,887 | - |
| Administrative expense, net | 300,000 | 323,877 | 323,877 | - |
| Capital outlay, net | (428,500) | (322,168) | (322,168) | - |
| Debt service: | | | | |
| Principal | 115,000 | 114,525 | 114,525 | - |
| Interest and fees | 195,000 | 189,935 | 189,935 | - |
| Total expenditures | <u>4,730,271</u> | <u>5,203,591</u> | <u>5,203,591</u> | <u>-</u> |
| Excess of revenues over expenditures | 293,440 | 235,414 | 235,414 | - |
| Fund balance, beginning of year | <u>1,964,886</u> | <u>1,964,886</u> | <u>1,964,886</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 2,258,326</u> | <u>\$ 2,200,300</u> | <u>\$ 2,200,300</u> | <u>\$ -</u> |

OTHER SUPPLEMENTAL INFORMATION

MANISTEE COUNTY ROAD COMMISSION

COUNTY ROAD FUND

ANALYSIS OF CHANGES IN FUND BALANCES

For the Year Ended September 30, 2008

| | <i>Primary Road Funds</i> | <i>Local Road Funds</i> | <i>County Road Commission Funds</i> | <i>Total</i> |
|--|-----------------------------------|---------------------------------|---|---------------------|
| Total operating revenues | \$ 2,401,844 | \$ 2,112,564 | \$ 924,597 | \$ 5,439,005 |
| Total expenditures | <u>1,960,354</u> | <u>2,504,832</u> | <u>738,405</u> | <u>5,203,591</u> |
| Excess of revenues over expenditures | <u>441,490</u> | <u>(392,268)</u> | <u>186,192</u> | <u>235,414</u> |
| Other financing sources (uses): | | | | |
| Optional transfers in (out) | | | | |
| Primary Road to Local Road | <u>(392,268)</u> | <u>392,268</u> | <u>-</u> | <u>-</u> |
| Total other financing sources (uses) | <u>(392,268)</u> | <u>392,268</u> | <u>-</u> | <u>-</u> |
| Excess of revenues and other sources over (under) expenditures and other uses | 49,222 | - | 186,192 | 235,414 |
| Fund balance, beginning of year | <u>1,164,562</u> | <u>-</u> | <u>800,324</u> | <u>1,964,886</u> |
| Fund balance, end of year | <u>\$ 1,213,784</u> | <u>\$ -</u> | <u>\$ 986,516</u> | <u>\$ 2,200,300</u> |

MANISTEE COUNTY ROAD COMMISSION

COUNTY ROAD FUND

ANALYSIS OF REVENUES

For the Year Ended September 30, 2008

| | <i>Primary Road Funds</i> | <i>Local Road Funds</i> | <i>County Road Commission Funds</i> | <i>Total</i> |
|---------------------------------------|-----------------------------------|---------------------------------|---|---------------------|
| REVENUES: | | | | |
| <i>Licenses and Permits</i> | | | | |
| Permits | \$ - | \$ - | \$ 46,790 | \$ 46,790 |
| <i>Federal Grants:</i> | | | | |
| Surface Transportation Program | 36,843 | - | - | 36,843 |
| Federal "D" Funds | 33,847 | - | - | 33,847 |
| FEMA Funds | - | 208,419 | - | 208,419 |
| <i>State Grants:</i> | | | | |
| <i>Michigan Transportation Funds:</i> | | | | |
| Engineering | 5,599 | 4,401 | - | 10,000 |
| Snow removal | - | 145,652 | - | 145,652 |
| Primary road | 2,022,073 | - | - | 2,022,073 |
| Local road | - | 1,443,657 | - | 1,443,657 |
| <i>Other State Funds</i> | | | | |
| Federal Aid Buyback | 187,500 | - | - | 187,500 |
| <i>Economic Development Funds</i> | | | | |
| Rural primary (D funds) | 15,445 | - | - | 15,445 |
| Forest road | 73,590 | - | - | 73,590 |
| FEMA Matching Funds | - | 34,736 | - | 34,736 |
| <i>Contributions from Other Units</i> | | | | |
| <i>County raised funds:</i> | | | | |
| City and Village contributions | - | 92,278 | - | 92,278 |
| Township contributions | - | 183,421 | - | 183,421 |
| <i>Charges for Services</i> | | | | |
| <i>State revenue:</i> | | | | |
| State trunkline maintenance | - | - | 627,208 | 627,208 |
| State trunkline non-maintenance | - | - | 42,065 | 42,065 |
| Other revenue: | - | - | 46,926 | 46,926 |
| <i>Interest and Rents:</i> | | | | |
| Interest earned | 26,947 | - | 13,294 | 40,241 |
| Rent | - | - | 36,000 | 36,000 |
| <i>Other revenue:</i> | | | | |
| Royalties | - | - | 46,864 | 46,864 |
| Contributions | - | - | 32,328 | 32,328 |
| Gain on sale of assets | - | - | 33,122 | 33,122 |
| Total revenues | <u>\$ 2,401,844</u> | <u>\$ 2,112,564</u> | <u>\$ 924,597</u> | <u>\$ 5,439,005</u> |

MANISTEE COUNTY ROAD COMMISSION

COUNTY ROAD FUND

ANALYSIS OF EXPENDITURES

For the Year Ended September 30, 2008

| | <i>Primary Road Funds</i> | <i>Local Road Funds</i> | <i>County Road Commission Funds</i> | <i>Total</i> |
|---------------------------------|-----------------------------------|---------------------------------|---|---------------------|
| EXPENDITURES: | | | | |
| <i>Public Works:</i> | | | | |
| Primary road: | | | | |
| Preservation | \$ 442,523 | \$ - | \$ - | \$ 442,523 |
| Maintenance | 755,222 | - | - | 755,222 |
| Winter Maintenance | 460,959 | - | - | 460,959 |
| Local road: | | | | |
| Preservation | - | 772,559 | - | 772,559 |
| Maintenance | - | 860,124 | - | 860,124 |
| Winter Maintenance | - | 423,804 | - | 423,804 |
| State trunkline maintenance | - | - | 611,279 | 611,279 |
| State trunkline non-maintenance | - | - | 42,065 | 42,065 |
| Equipment expense, net | 157,050 | 269,068 | 102,769 | 528,887 |
| Administrative expense, net | 144,600 | 179,277 | - | 323,877 |
| <i>Capital Outlay:</i> | | | | |
| Capital outlay, net | - | - | (322,168) | (322,168) |
| <i>Debt Service:</i> | | | | |
| Principal | - | - | 114,525 | 114,525 |
| Interest and fees | - | - | 189,935 | 189,935 |
| Total expenditures | <u>\$ 1,960,354</u> | <u>\$ 2,504,832</u> | <u>\$ 738,405</u> | <u>\$ 5,203,591</u> |



REQUIRED COMMUNICATION TO THE MANISTEE COUNTY ROAD COMMISSION IN ACCORDANCE WITH PROFESSIONAL STANDARDS

To the Board
Manistee County Road Commission

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Manistee County Road Commission for the year ended September 30, 2008, and have issued our report thereon dated December 5, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 19, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Manistee County Road Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 5, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Matters

In planning and performing our audit of the financial statements of the Manistee County Road Commission as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Manistee County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined above.

We report no deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, Board, and others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants
Saginaw, Michigan

December 5, 2008